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**CORRESPONDENCE MEMORANDUM**

**DATE:** March 1, 2007  
**TO:** Employee Trust Funds Board  
**FROM:** John Vincent, Administrator  
Trust Finance and Employer Services Division  
**SUBJECT:** Purchase of Prior Non-Covered Employment as WRS Service

At the Employee Trust Funds Board (Board) meeting on December 15, 2006, the Board asked the Department to provide information and a recommendation for permitting covered employees to purchase creditable service for work performed prior to when they became eligible to participate in the Wisconsin Retirement System (WRS). This request was to address situations when the work expectations for an employee change such that the employee becomes eligible for enrollment in the WRS and has prior service from the date of hire in the same position with that employer. This memorandum provides discussion and a recommendation for Board consideration.

**BACKGROUND**

Under current law, employers determine the nature of their workforce and expectations of employment for their employees, including employees engaged in part-time or other employment of a short duration, e.g., limited-term employee (LTE), substitute teacher, seasonal, project. Employers are responsible for evaluating and determining each employee's eligibility for WRS participation. Because employers only report to the Department those employees eligible for WRS participation, the Department does not know how many ineligible employees WRS employers currently employ.

As discussed with the Board at the December 15 meeting, the following summarizes how eligibility under the current law is determined.

- Enrollment on Date of Hire

All employees who meet BOTH of the following criteria, as listed in Wis. Stat. § 40.22, must be enrolled in the WRS on the date of hire:

1. Employee is expected to work one-third of full-time per year (600 hours for non-teaching employees and 440 hours for teachers).

AND

2. Employee is expected to be employed for at least one year (365 consecutive days, 366 in leap year) from date of hire.

Reviewed and approved by David A. Stella, Deputy Secretary.

Signature

Date

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- Enrollment after Date of Hire

If an employer determines that an employee does not meet both of the above eligibility requirements for WRS participation on the date of hire, the employee may subsequently become eligible and must be enrolled any time one of the following occurs:

1. Changed Expectations: The expectations about the employment change such that the employee is expected to meet or exceed the above hour and duration of employment thresholds.
2. Evaluation at One-year Anniversary: On the employee's one year anniversary date it is determined that the employee met the hours threshold for the previous year.
3. Evaluation on a 12-month Rolling Look-Back: It is determined that the employee met the hours threshold in any 12 consecutive month period.

Under current policy, enrollments after the date of hire under the above three criteria are effective prospectively. Therefore, creditable service is not awarded for service in the same position that took place prior to the effective date of enrollment.

## **DISCUSSION**

The Board indicated it was interested in discussing changes that would provide creditable service to an employee who was enrolled in the WRS after the date of hire for service performed in the same position before enrollment. As noted at the December 15 meeting, a revision to current statutes would be required to implement this change. While several alternatives to effectuate this change exist, the following general questions would likely be considered by legislators in considering this policy change.

1. Under what conditions should service be granted? For example, should all new employees be enrolled upon date of hire? Would the change apply to all types of new employees, including LTE, seasonal, and project? Should prior service with a different WRS employer be granted? For how long should this prior service be available for purchase?
2. How is the cost for the increased benefit funded, and by whom? For example, should the employee fund the total cost of the increase? Should the employer and employee share in the cost? Should the employer pick up the cost?

The above questions illustrate the complexity of the issue. The conditions of purchase and the funding of the increased benefits are important for the Board to consider if it wants to advance legislative changes to permit the purchase of prior non-covered employment as WRS service. Given that the Board has not yet addressed these issues, it was necessary to make some assumptions in order to develop recommendations for discussion. For purposes of the discussion that follows, the following assumptions about the possible policy change were used:

1. The employee must have been working with the same employer in the same position immediately preceding the change in work expectations.
2. Purchase of service would not grant retroactive eligibility for other benefits administered by ETF other than the WRS.
3. The employee would not be required to be working for the same employer or in the same position for which there was a change in work expectations at the time of purchase application.
4. The cost of the purchase is established so as to ensure funding of the full actuarial cost of the increased benefits.

As noted earlier, the conditions upon which this purchase can be made and how it is funded are important elements. The narrower the conditions the easier it would be for the employee to understand and for the employer and ETF to administer. The specifics regarding the funding will affect the health of the trust fund and the burden placed on employers and employees. For example, requiring the employee to pay the full actuarial cost of the purchase would ensure full funding of the increased benefits. It would also reduce employer resistance, eliminate the uncertainty of which employer is liable, and reduce arguments from employers about whether an employee is eligible for the prior non-covered service. Also under this funding model, employers that have collective bargaining agreements with employee groups might be able to offer an option in future labor agreements to assist with these purchases.

## **RECOMMENDATION**

The Department recommends that if the Board wishes to proceed with a change to permit certain employees to purchase creditable service for work performed prior to when they became eligible for coverage under the WRS, the change should be modeled after current statutory provisions allowing for the purchase of other governmental service, or OGS. Under OGS, an employee may purchase service performed as an employee of the federal government or of a state and local government which does not participate in the WRS, or unrecognized service for a WRS employer that was performed before the employer came under the WRS. The advantages of the OGS approach are summarized below.

- Takes advantage of current statutory provisions. This policy change would simply piggyback on the OGS provisions to permit an employee to purchase creditable service for work performed prior to when he or she became eligible to participate in the WRS.
- Provides the employee with complete discretion as to when to purchase the service. Consistent with statutory provisions relative to OGS, the employee could submit an application for the purchase as long as the applicant was a participating employee on the day that the department received the application. However, under current law, in order to purchase OGS the applicant must have at least three continuous years of creditable service at the time of application. Because the cost of service is generally much lower if it is purchased earlier in an employee's career, rather than at a later date, the statute could be amended to provide for the immediate purchase of this service upon the change of work expectations. Some of the key factors that are involved in the cost calculation include the

applicant's employment category, current earnings, the number of years of service being purchased, and the participant's age.

- No cost for the employer. The employee would be responsible for the purchase cost. This effectively eliminates any employer concern about being required to fund the cost of non-WRS service. However, the statute could be amended to provide employers with the authority to pick up all or part of the purchase cost, within federal limitations, as provided by an individual arrangement or within a collective bargaining agreement.
- Fund remains actuarially sound. The cost of the purchase would be calculated to be sufficient to cover the cost of the increased benefits. This would ensure the integrity of the fund and protect other employers.
- Simple amendment to current statute. If the Board wants to proceed with this policy change and use a mechanism similar to OGS, a simple amendment to the current statute would be developed.

Staff will be available at the meeting for discussion and questions.